



Office of Superintendent of Public Instruction
K-12 Financial Resources

Update on Basic Education Funding Legislation

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November 23, 2009

Agenda

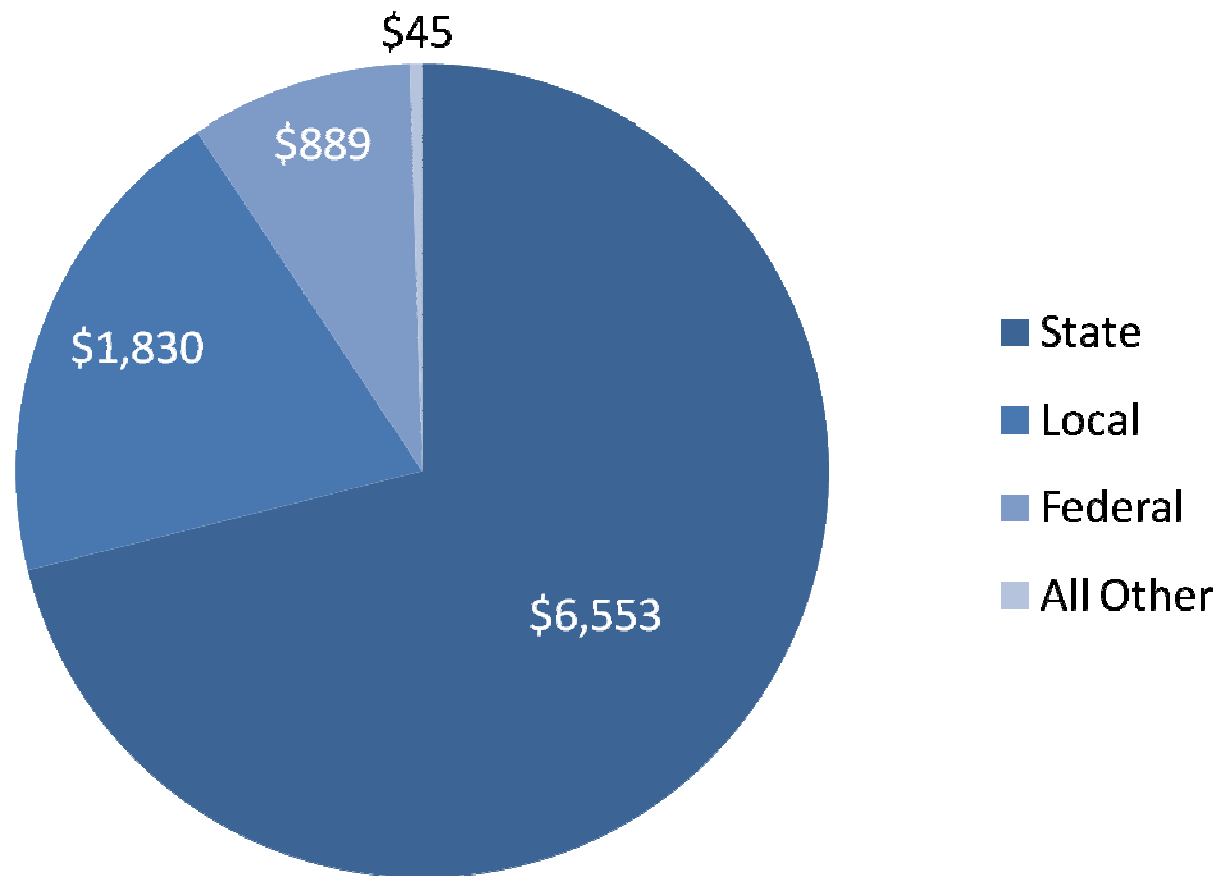
- Background on Funding Formulas and Causes of the Financial Crisis
- Proposed Solution: ESHB 2261
 - Governance and Working Groups
 - Transportation
 - Funding Formula Structure and Values
- Near-term Financial Outlook



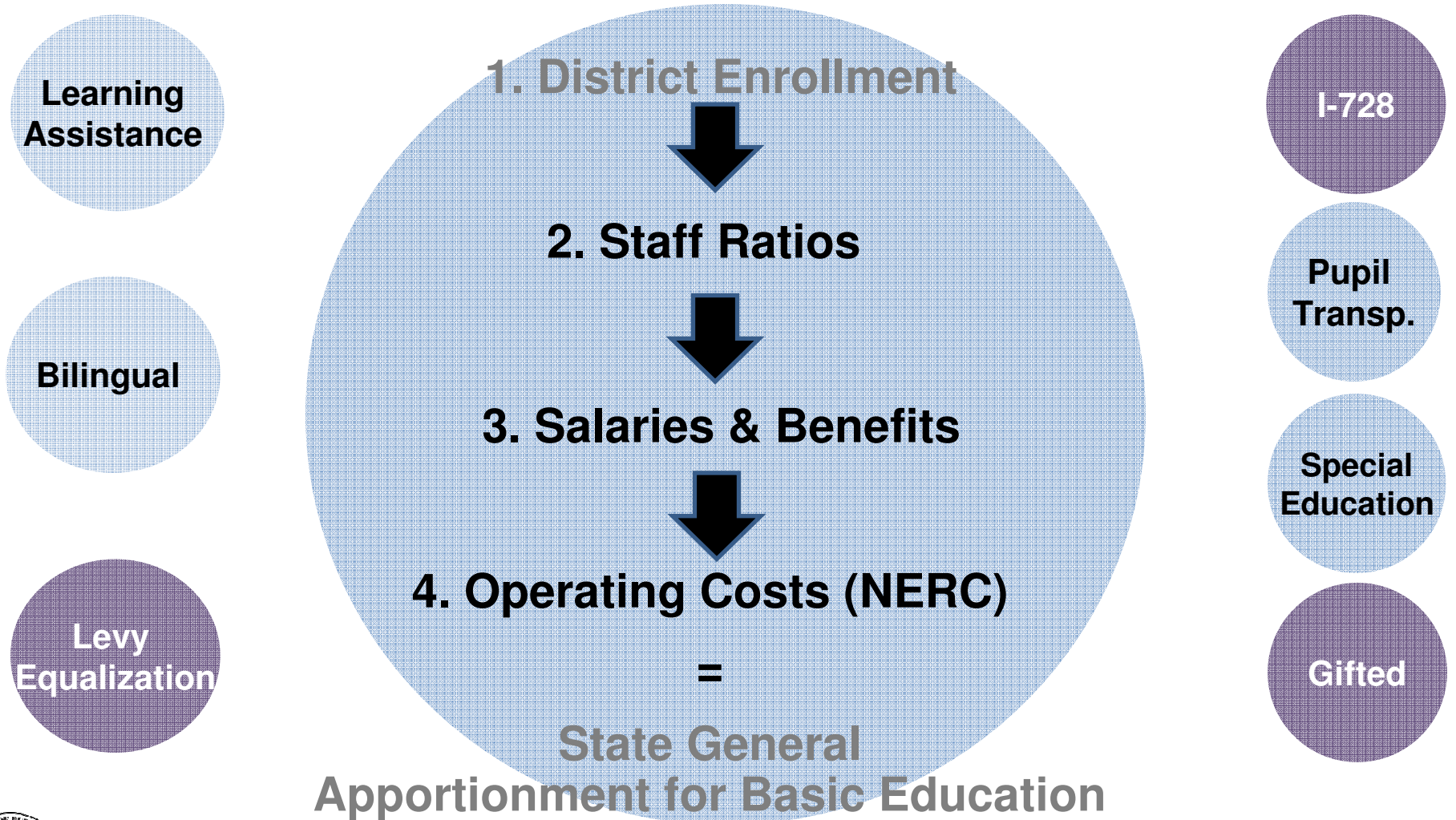
BACKGROUND AND DYNAMICS OF THE CRISIS

State, Local, and Federal Funds Totaled \$9.3 Billion

2007-08 Resources, 295 School Districts (\$ Millions)



Of \$6.5 Billion in State funds, \$4.6 Billion is driven through a single simple formula



Factors That Contribute to the Crisis

1. District Enrollment



2. Staff Ratios



3. Salaries & Benefits



4. Operating Costs (NERC)

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State General

Apportionment for Basic Education

#2 Districts do not have enough staff to provide ample opportunity to all students and keep the district running

#3 Districts heavily subsidize compensation costs

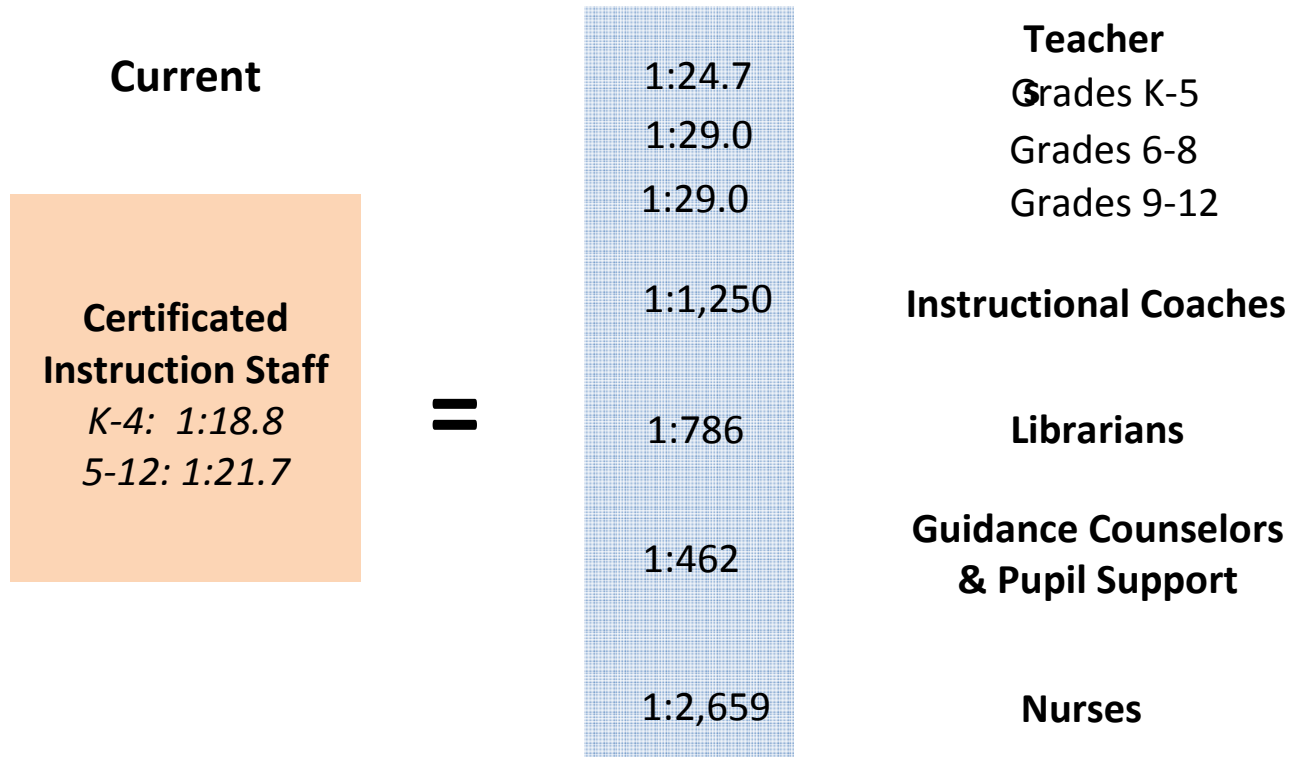
#4 Districts heavily subsidize basic operating expenditures

→ Costs increase faster than state revenue and faster than local revenue

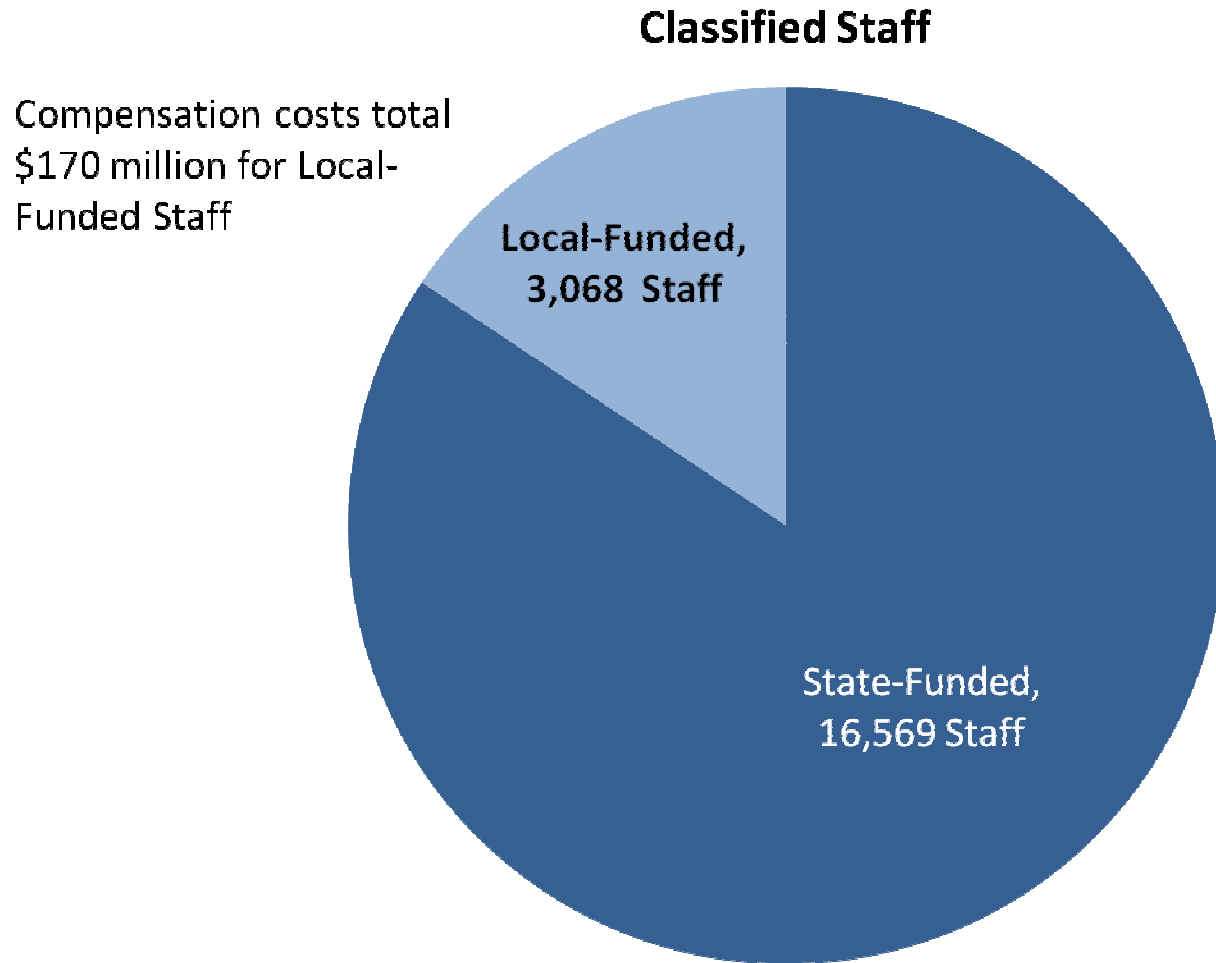


Factor #2 (Instruction): Districts Choose Between Lower Class Sizes and Student Support

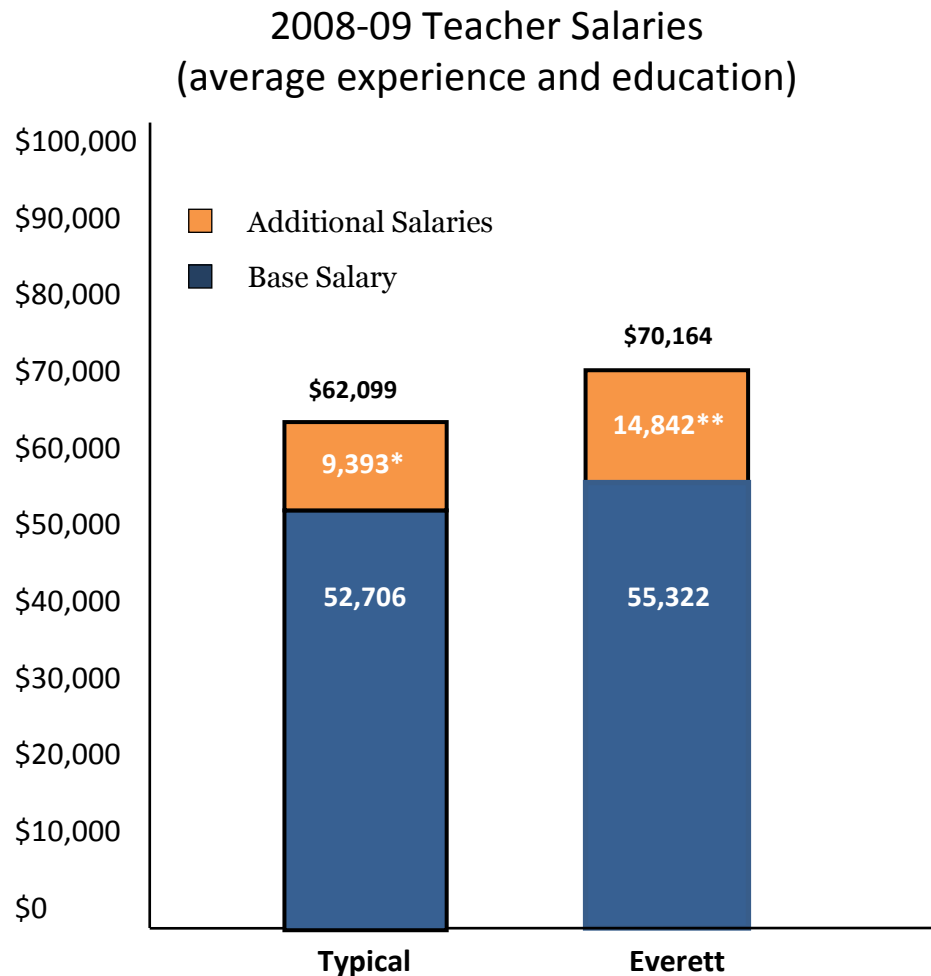
*Students per 1 FTE Staff
6 periods + 1 hr planning*



Factor #2 (Classified): Districts Hire Many More Classified Staff Than Are Funded by the State



Factor # 3: Differences in Teacher Salary Impacts Morale and Retention



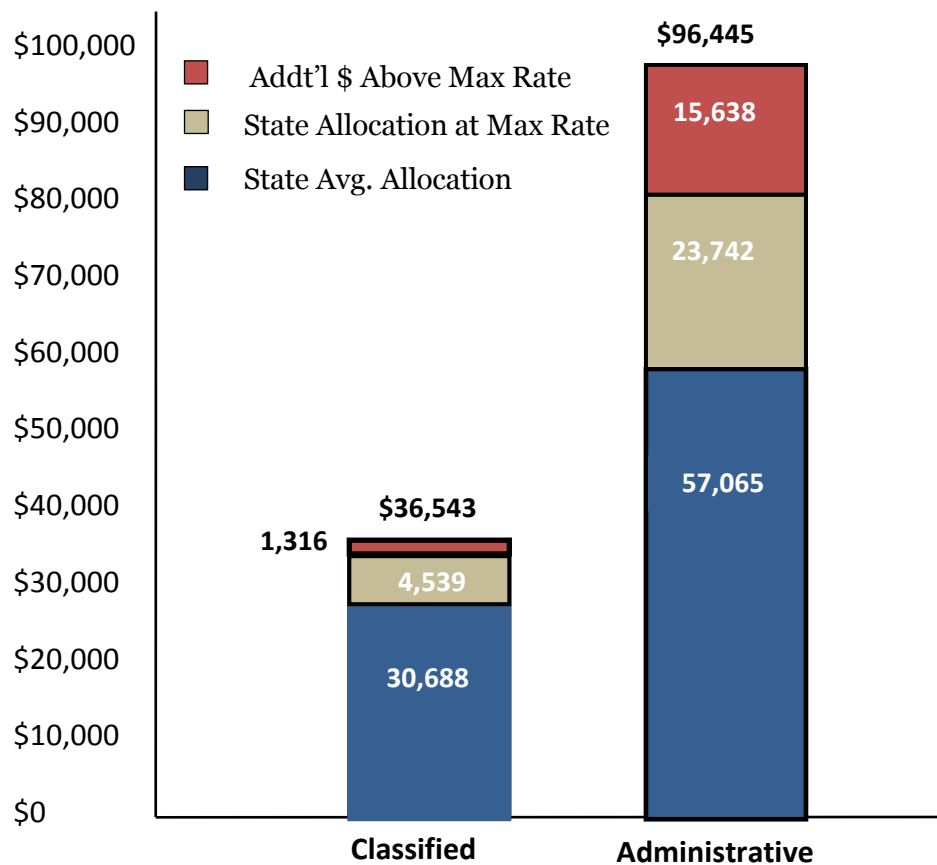
1. Base salary most districts
2. Base salary of Everett
- **Equalizing will cost \$167 million and raise most teacher salaries by 5%**
3. Additional (supplemental) salaries average nearly \$9,400 per teacher statewide

*2008-09 is projected from 2007-08
* *2007-08 reported; full-time teachers only, no outliers



Factor # 3: Districts Must Subsidize Classified/Admin Salaries by \$366 Million

2007-08 Building Blocks of K-12 Staff Average Salaries

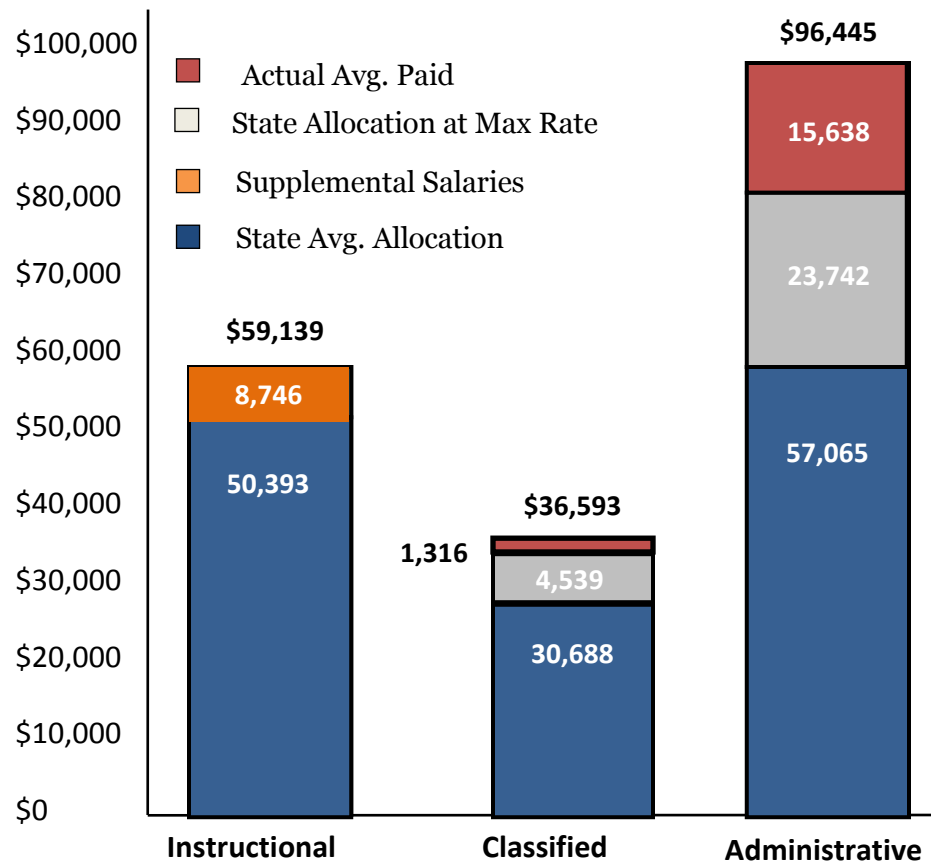


1. Average total salary
 2. State average allocation
 3. District allocations vary, first step is to equalize salary allocations (\$226 million state cost to equalize)
 4. After equalization, the state still must identify an appropriate method to address true costs districts experience (\$140 million difference between equalized allocations and district costs)
- **Districts must support the salary underfunding, and any associated pension costs and COLA**



Factor # 3: Districts Cannot Afford COLAs

2007-08 Building Blocks of K-12 Staff Average Salaries



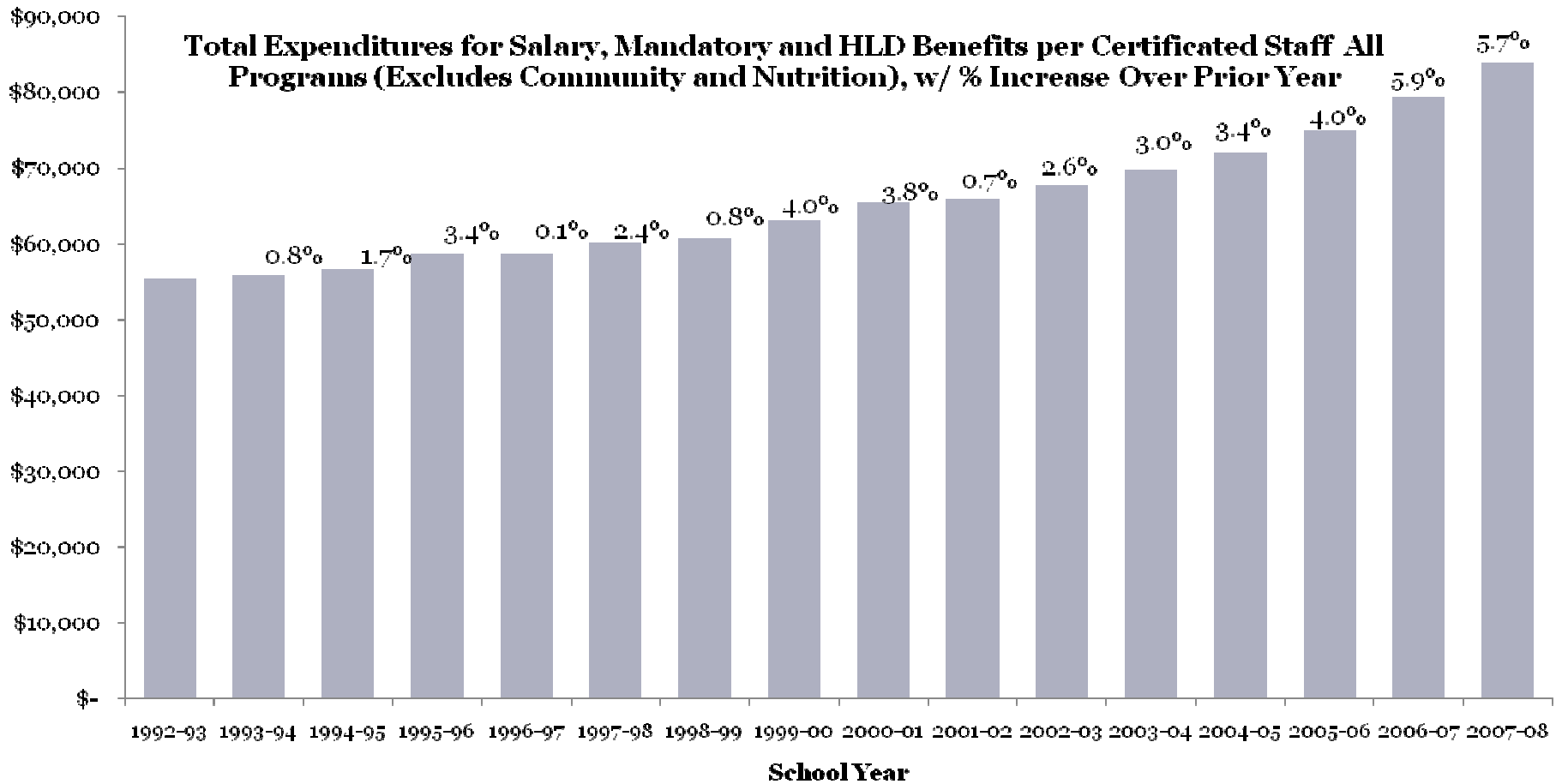
Local Funds COLA Effect (4.1% example only)

1. COLA on average salary paid for “local staff units” (**\$44 million**)
2. COLA on all supplemental salaries, all staff (**\$20 million**)
3. COLA on unequalized portion of Classified and Administrative salaries, all staff (**\$10 million**)
4. COLA on difference between the state maximum allocation and the salary districts actually pay, all staff (**\$5 million**)

\$79 million total

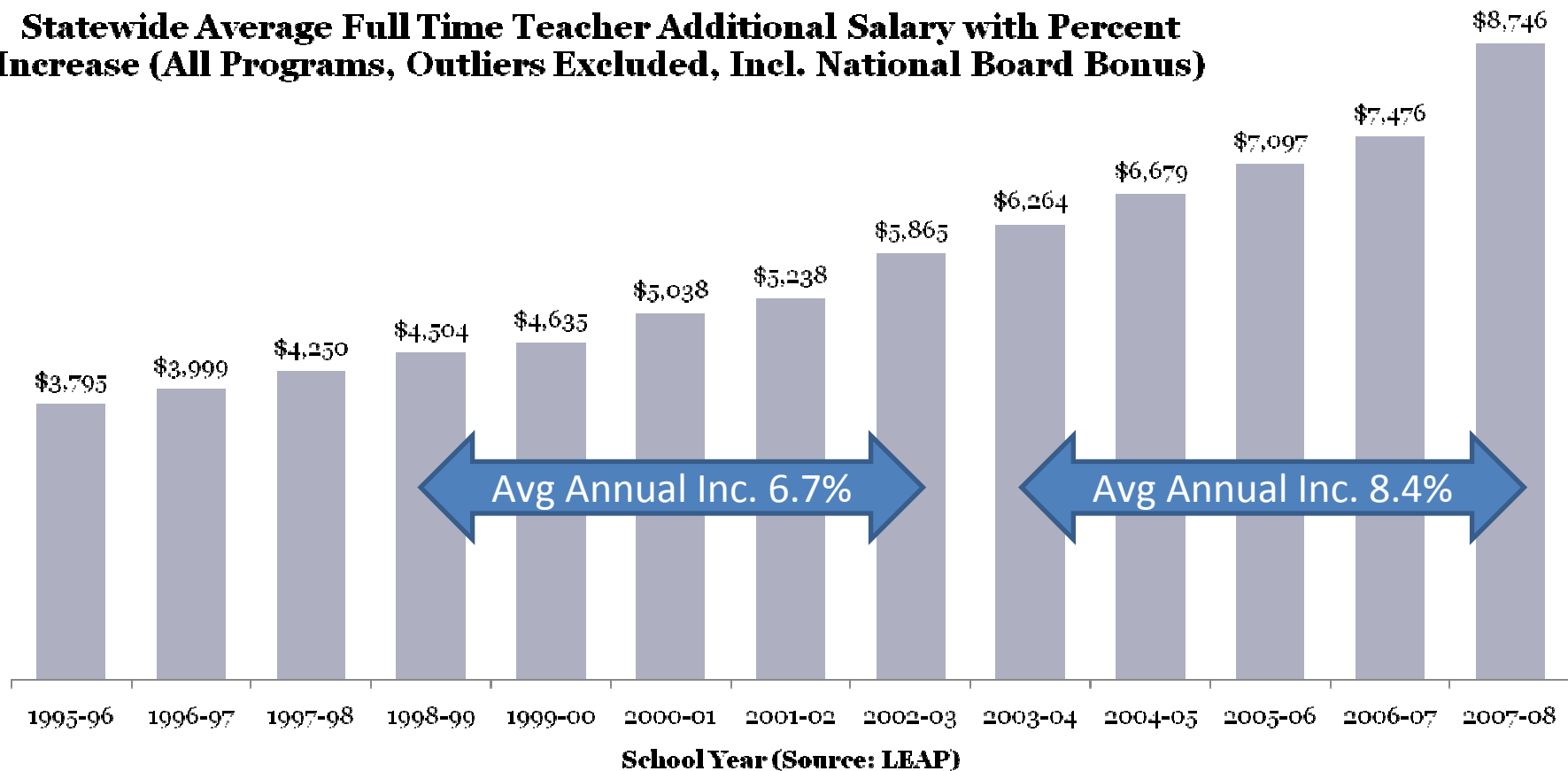


Factor # 3: Annual Percent Increase in the Cost of Staff has Doubled



Factor # 3: Additional Salaries Increased 8.4% Annually During Prior 5 Years

Statewide Average Full Time Teacher Additional Salary with Percent Increase (All Programs, Outliers Excluded, Incl. National Board Bonus)



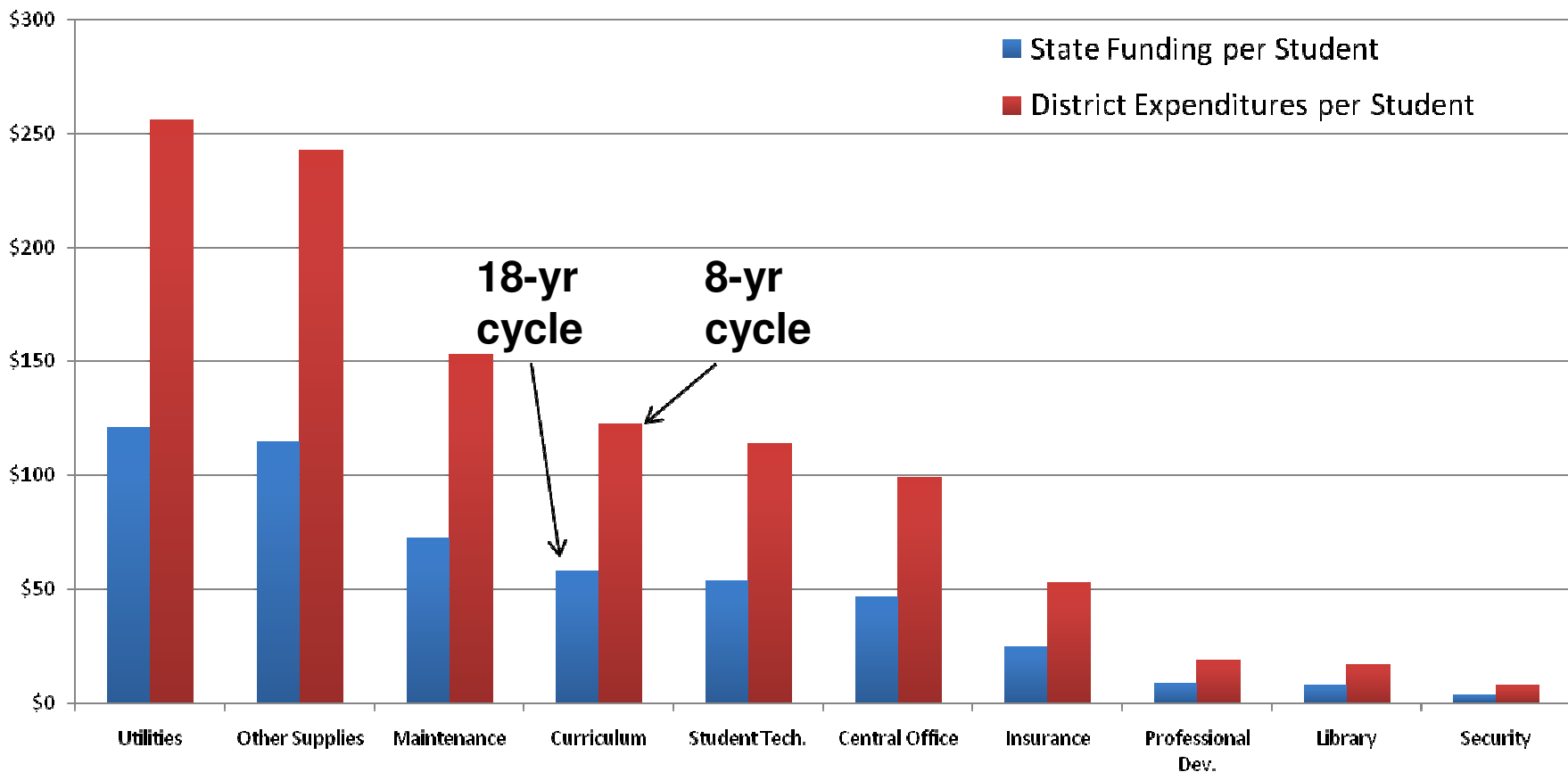
Compensation Dynamics and the Financial Crisis

1. State does not pay for enough staff; class sizes are too high with too little support
2. Out-dated teacher salary schedule drives morale and retention issues
3. State does not pay for the full cost of Basic Education Classified and Administrative staff
4. COLAs on the differential between State-funded and Actual Salaries is Significant
5. State does not pay for basic education-related supplemental salaries
6. Compensation costs grow faster than revenue sources



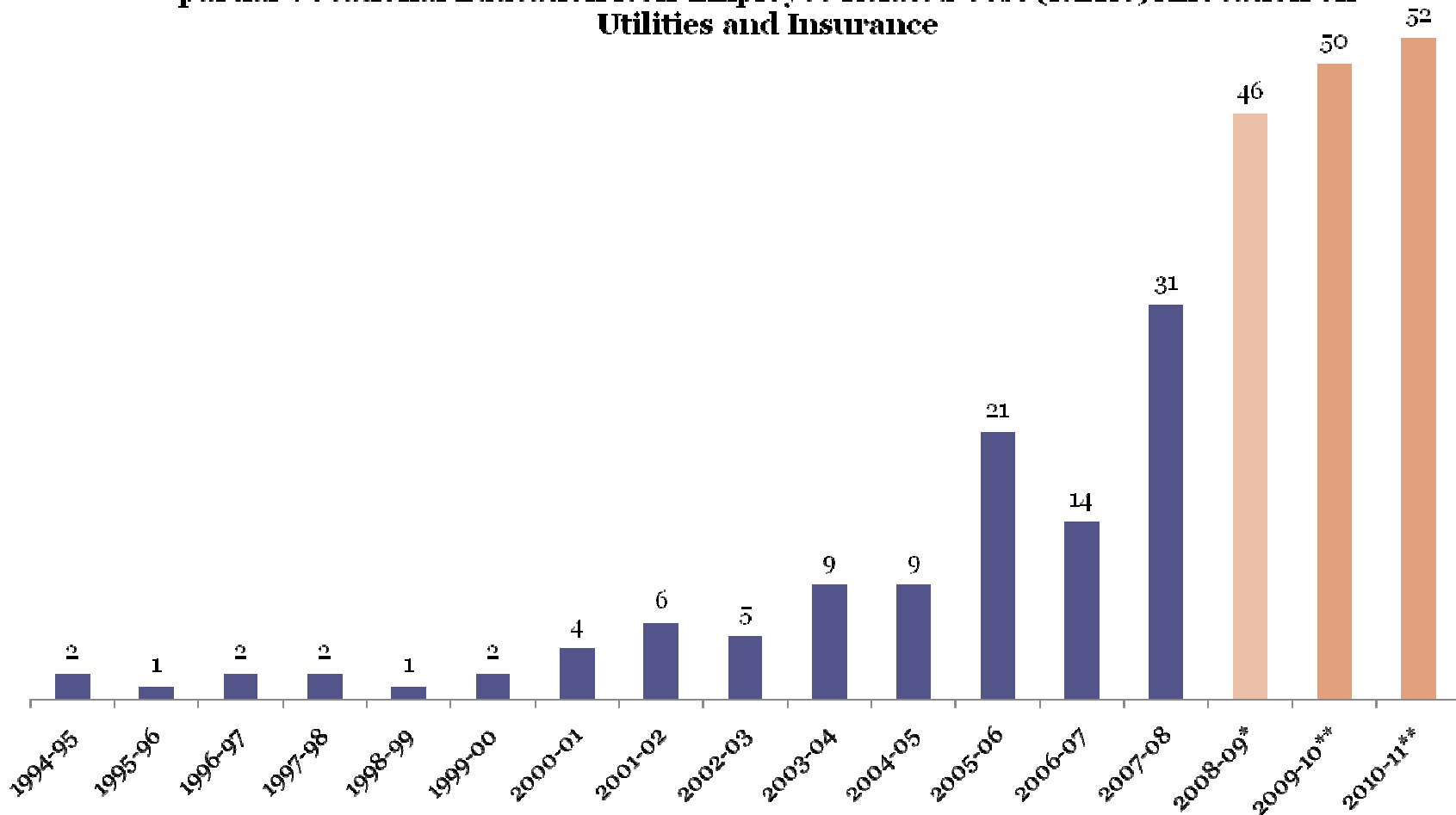
Factor #4: Districts Spent \$517 Million More on NERC Than the State Funds

Non-Employee Related Costs 2007-08 Funding vs. District Expenditures

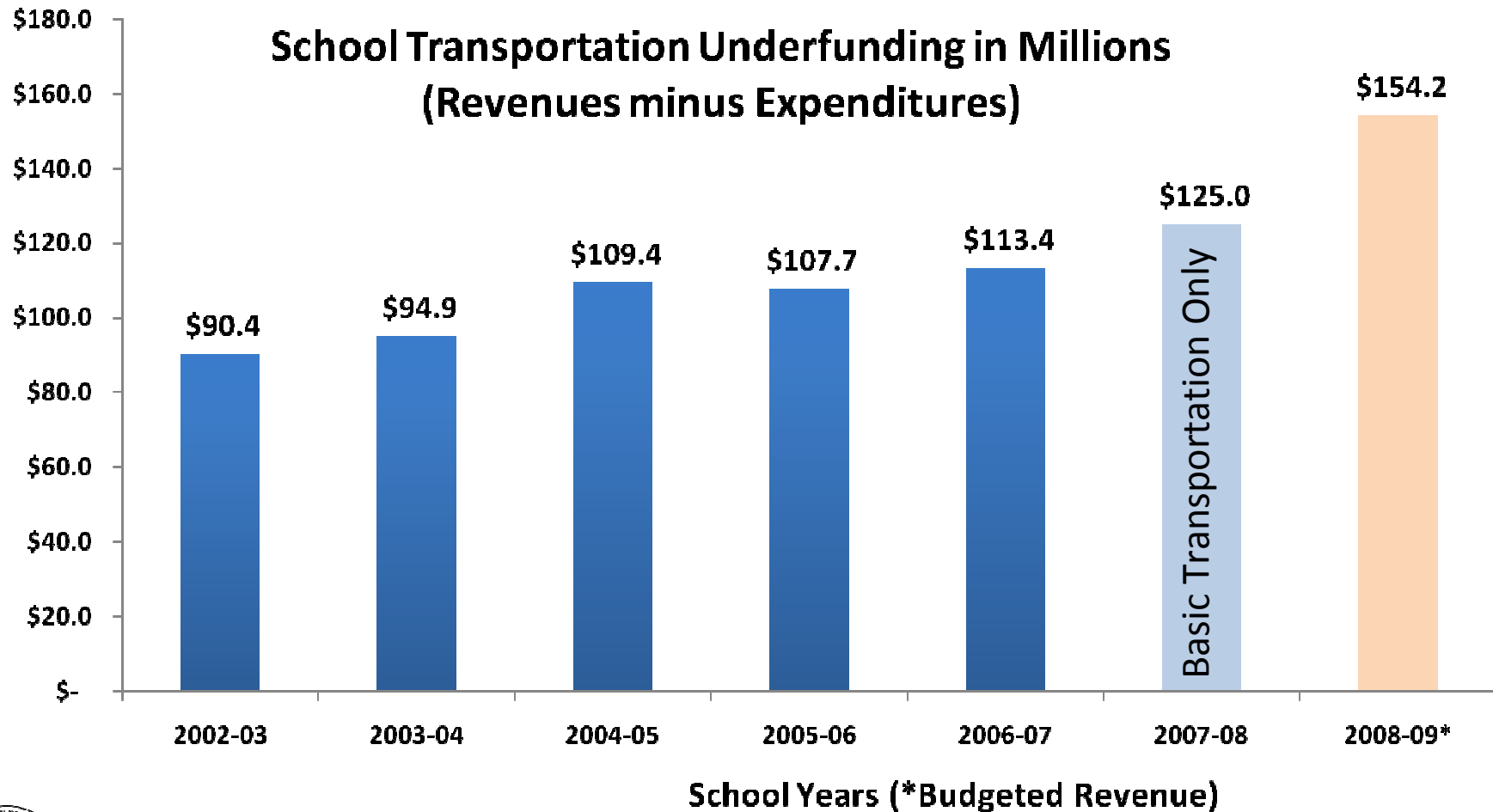


Factor # 4: Nearly 20% of Districts Will Spend Nearly 100% of Their NERC Allocation on Utilities and Insurance Alone

Number of School Districts that Expend More than 100% of their Basic and partial Vocational Education Non-Employee Related Cost (NERC) Allocation on Utilities and Insurance

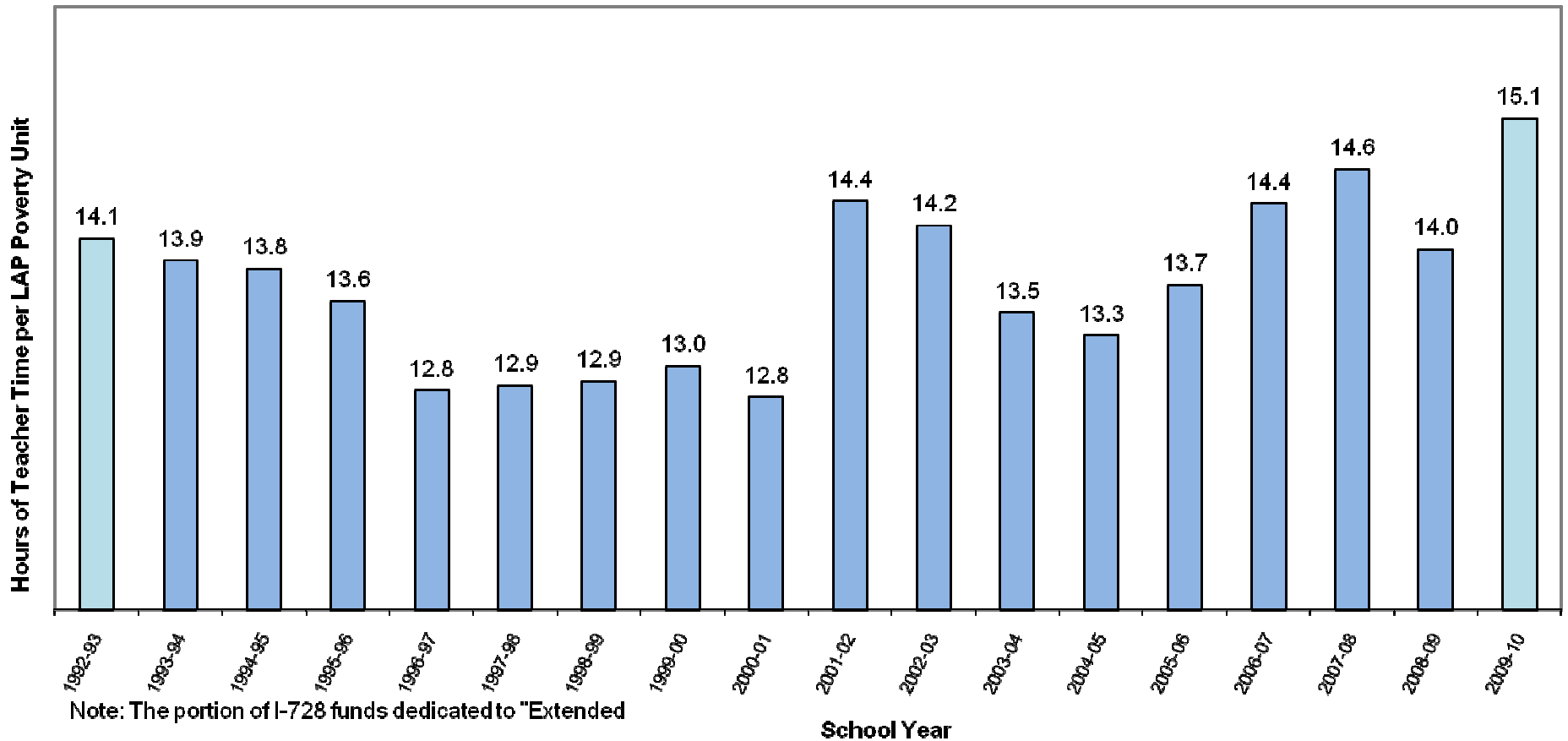


Pupil Transportation is Heavily Subsidized by Local Funds



Without Extra Title I from ARRA, 2009-10 Buying Power Would Be 12.3 Hours

Annual Hours of Instruction Purchaseable Per LAP Unit at 1 to 1 Ratio
(Includes LAP, Title I, ARRA Title I, I-728, & PAS funding)



ESHB 2261 Overview

PROPOSED SOLUTIONS

ESHB 2261 – State Education System

- Elements of an expanded “Program of Basic Education” and the funding to support it are phased-in and intended to be fully implemented by 2018
- This legislation includes the following:
 - Increased Instructional Hours
 - Enhanced High School Diploma requirements
 - New Transportation Funding Formula
 - All-Day Kindergarten added to “basic education”
 - Funding allocations and reporting on expenditures will use a **prototypical school model**
 - Governor vetoed:
 - Designation of Early Learning for disadvantaged students as “basic education”
 - Highly Capable safety net structure



ESHB 2261 – State Education System

- **Other items included in the bill:**
 - **System Capacity to absorb new resources** reviewed on a biennial basis by OSPI
 - The **Quality Education Council** formed
 - Four **Working Groups** will be created to develop details of the **funding formulas, early learning, employee compensation, and levies and levy equalization**
 - A “**K-12 Data Governance Group**” will be established
 - The State Board of Education will continue to refine an **accountability framework**
 - The Professional Educator Standards Board (PESB) must **adopt performance standards** for effective teaching and modifications for educator certification



Legislature and Governor

OSPI and/or OFM Work Groups

- Funding (12/01/09)
- Data Governance (12/01/10)
- Levy and Levy Equalization (12/01/11)
- Compensation (12/01/12)
- Early Learning

Professional Educator Standards Board

- Teacher Standards (01/01/10)

State Board of Education

- Accountability (12/01/09)
- Implementation of Core 24

Quality Education Council (QEC)

- State Superintendent
- Governor Appointee
- SBE Member
- PESB Member
- DEL Director
- Legislators (8)



Quality Education Council Charge

- **Purpose:** To recommend & inform the ongoing implementation by the Legislature of an evolving program of basic education & financing.
- **In addition:**
 - Develop strategic recommendations that are then updated by QEC every 4 years
 - Identify measurable goals and priorities
 - Consider capacity of system to absorb additional resources (SPI is charged to conduct analysis)
- **Required Membership**
 - 8 Legislators (Split evenly by chamber and party)
 - Governor’s Appointee
 - Chair of State Board of Education
 - Chair of Professional Educator Standards Board
 - Department of Early Learning Director
 - Superintendent of Public Instruction



Quality Education Council Initial Deliverables

- Initial report to include recommendations on:
 - Resolving issues requiring legislative action (2010 session)
 - A statewide teacher mentoring & support system
 - An early learning program for at-risk children
 - Phase-in of new transportation formula (beginning no later than Sept. 1, 2013.)
 - An implementation schedule for concurrent phase-in of changes to Basic Education Program and the funding to support changes
- Report due January 1, 2010



New Transportation Formula Phased- in

- Section 304-311
- New student transportation allocation formula is based on the average predicted costs to school districts
 - Recommended formula from year-long study process and Advisory Committee of school district experts
- No later than September 1, 2013, begin phasing-in the new funding formula
 - current funding based on the radius mile is discontinued
- *Underfunding of Transportation would be addressed*



What 2261 Does Not Do:

- Establish the Prototypical School Model values in statute
- Specify a new teacher compensation system
- Specify a new levy system (lid and/or equalization)
- Specify a new system for salary allocations
- Adopt an accountability system
- Specify the schedule of funding phase-in between now and 2018-19



A Financial Crisis is Solved with Funding Values

FUNDING VALUES

2261 Adopts a New Formula

- 2261 builds on the work of Washington Learns and BEFTF to make formulas more transparent
- Adopts a Prototypical School Model structure



What is a Prototypical School Model?

- Given a school of a certain size and demographic mix, what programs and services does this school “require” to provide students opportunity to meet standards?
 - *Hours of instruction*
 - *Numbers and type of teachers (including course load assumptions)*
 - *Early childhood to K-12 articulation*
 - *Hours/days of professional development*
 - *Counseling, social/health and other support services*
- Based on Elementary of 400 students; Middle of 432; High School of 600
- Translate these resource assumptions and extrapolate to actual district and statewide costs



New Funding Levels of the Formula are Not Determined

- 2261 builds on the work of Washington Learns and BEFTF to make formulas more transparent
- Adopts a Prototypical School Model structure
- QEC may recommend new funding values to populate the new structure
 - Future Legislatures will ultimately decide the new funding levels
- QEC will probably recommend the “Crosswalk” from old to new formula and recommend adoption in law



“Crosswalk” takes Current Law Formula Below and...

Per 1,000 Students

- 49 Certificated Instructional Staff (CIS) (K-3)
- 46 CIS per 1,000 (4-12)
- 16.67 Classified Staff
- 4 Certificated Administrative Staff
- CTE and Skills Center Funding (19.5 CIS and 16.7 CIS respectively)



... Translates Old Funding Levels into the New Structure (DRAFT)

Current Law Funding (RCW 28A.150.260)	Elementary (400)	Middle (432)	High (600)
Class Size			
Class Size K-3	25.23		
Class Size 4-6; 7-8; 9-12	27.01	28.70	29.13
Other Staff per Prototypical School			
Principal (and Other School Administrators)	.95	1.40	2.06
Teacher Librarians	.66	.52	.52
Guidance Counselors	.49	1.12	1.89
Nurses/Social Workers	.14	.08	.32
Professional Development Coaches	.08	.10	.16
Instructional Aides	1.26	.48	.68
School Office & Non-Instructional Aides	2.74	1.65	3.52
Custodians, Grounds Keepers, Maintenance	1.67	3.18	3.64
Student and Staff Safety	.18	.34	.39
Districtwide Support			
Warehouse/Laborer	.96 staff per 1,000 students		
Supervisors/Central Finance	4.86 staff per 1,000		
Certificated Administrators	1.00 staff per 1,000		
CTE Central Admin	1.01 staff per 1,000		
Technology	2.76 staff per 1,000		



A Number of Studies Have Been Completed

- 2004: House of Representatives ad hoc study
- 2005: Washington Learns legislation enacted
- 2006: Washington Learns study completed;
Pupil Transportation study completed
- 2007: Basic Education Finance Task Force (BEFTF) legislation enacted
- December 2008: BEFTF study completed



BEFTF and Washington Learns...

...recommended prototype values for each cell of the new formula structure

- The QEC and Legislature do not have to start from scratch
- Recommendations have been debated and researched, good basis from which to start



If the Legislature adopted and funded the BEFTF or similar recommendations by 2018, would that solve the problem?

NEAR-TERM FINANCIAL OUTLOOK

National and State Economic Downturn

- National economy has been in recession since 12/2007
- Washington lagged the downturn; weak job growth expected to begin in spring of 2010
- But state revenues collections will be impacted more severely because this is a consumer lead recession
 - Consumer sentiment is lower than in previous recessions
 - Taxable automotive and construction activity has dropped off sharply
 - Other layoff's since October are significant: WaMu, Boeing, Microsoft
- November Economic Forecast for Washington:
 - Unemployment will increase further from current 9.1% to 9.8%
 - Economy still worsening, but recovery is still on schedule



State Revenue Outlook Current Biennium

2009-11 State Fiscal Biennium (2009-10 and 2010-11 School Years):

- Legislature solved a budget shortfall estimated at \$9 billion when they enacted the biennial budget for 2009-11
 - The state (non-partisan) forecaster shows over a significant reduction in projected state revenue
 - The state cannot have an enacted budget that is not supported by projected revenue plus reserves
 - Therefore, significant cuts in the state budget are expected.
 - Other actual and potential budget “holes”
 - \$60 million in Levy Equalization reductions assumed in budget but not enacted
 - Caseload growth in excess of budget assumptions (e.g., K-12 enrollment)
 - Other miscellaneous due to legislation not enacted
 - Taken together, \$2.6 billion deficit for current biennium
- Expect further budget reductions for the biennium imposed by:
- Governor in across-the-board cuts before Legislature reconvenes (won't impact K-12 districts except in some competitive grants)
 - Legislature in 2010 session for 2010-11 school year



What can the State cut?

- Will the state cut programs for the 2009-10 school year? Likely no. State cannot impair contracts.
- What will the state cut for 2010-11? State can reduce non-basic education programs: levy equalization, K-4 ratio enhancement, gifted allocation, I-728, future health benefits inflation allowance. Governor's budget in early December is our first look at a plan.
- Will the state take other more drastic action? Maybe.



Why are districts solvent in 2009-10?

- Levies increase by \$120 million per year (just inflation factors)
- No COLA (saved \$80 million in local funds)
- Extra Federal Title I (\$67 million each year)
- Extra Federal Special Education (\$221 million over 2 years)
 - Congressional authority to use \$100 million to reduce levy contribution to Special Education
- Pension (\$40 million saved)
 - No pension contributions increase as had been scheduled
 - Pension rate drop saved another \$40 million in local funds



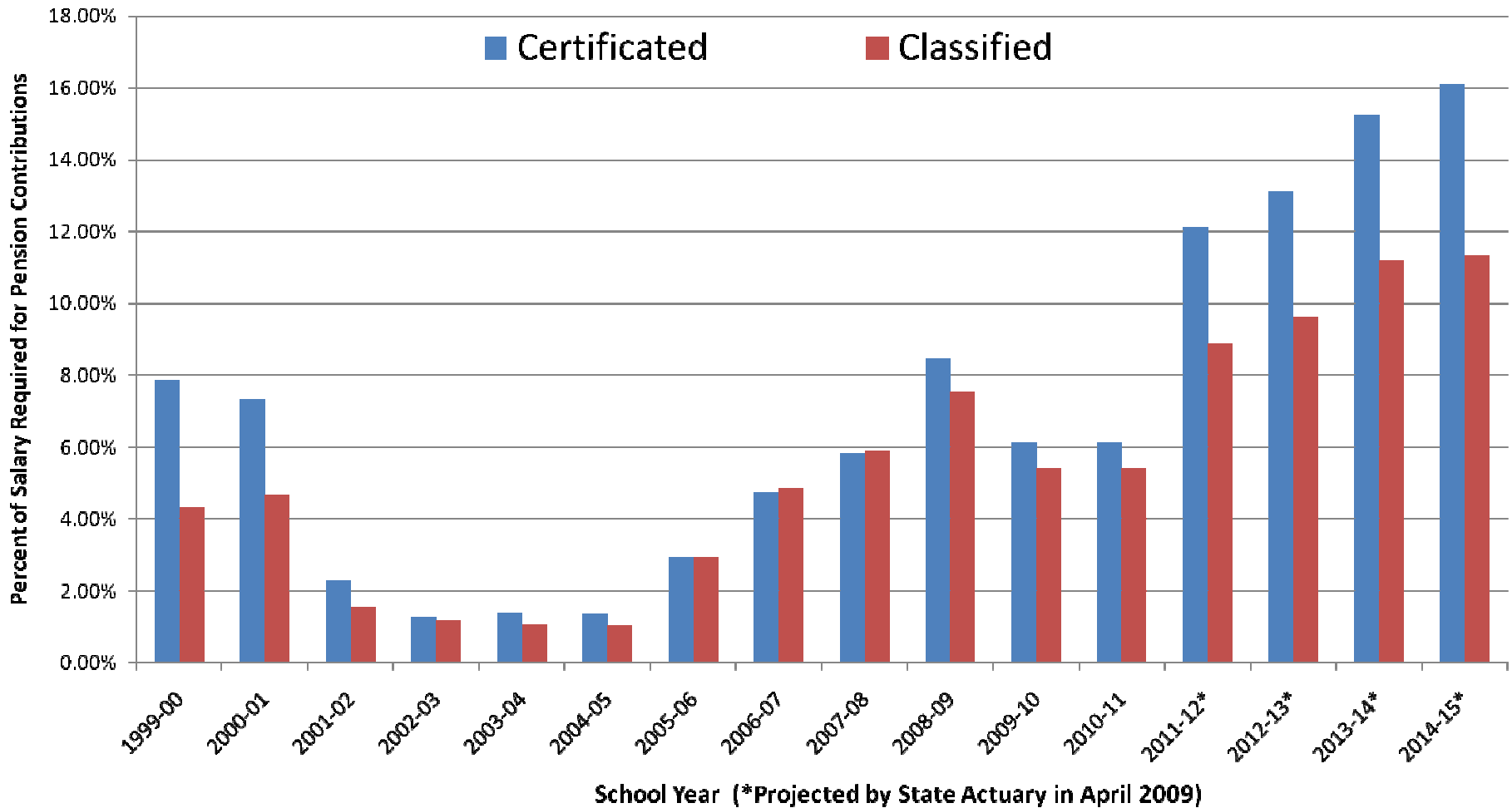
2010-11 SY, Expect More Cuts; 2011-12 SY Worse Outlook Still

- Levies will increase by about \$120 million
- But, if pension rates increase as projected:
 - Very rough estimate, \$120 million cost to local funds
- NERC/ Transportation Costs Increase Faster than State Revenue
 - Others also
- \$221 million in Federal Special Education, gone
- \$135 million in Federal Title I, gone
- COLA?
- Health benefits inflation, 6-11%



TRS Rates Double in 2011-12

Employer Rates for Certificated and Classified Staff Pension Contributions



Summary of Financial Outlook

- State economy is on track to rebound, but not before policymakers must solve another \$2.6 billion deficit for the current biennium → **expect** additional budget reductions in 2010-11 school year
- State long-term financial outlook has hurdles:
 - Replace 1-time federal stimulus and other 1-time funding used this biennium, not available next biennium (about \$3 billion out of \$33.4 billion state budget)
 - Restore cuts to I-728 and I-732 over 4 years, beginning in the 2011-12 SY (\$560 million per year once fully restored)
 - Increase employer pension contributions (roughly \$350 million per year increase over current biennium contributions)
- State funding for K-12 will be impacted by all above hurdles; outlook for 2011-12 is bleak



Contact Information

- QEC website:
<http://www.k12.wa.us/QEC/default.aspx>
- Funding Formula Working Group website:
<http://www.ofm.wa.gov/k12funding/>
- Jennifer Priddy, OSPI: jennifer.priddy@k12.wa.us
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